

## **Do's and Don'ts**

**A project of the U.S. Bankruptcy Court for the Western District of New York  
Honorable John C. Ninfo, II  
(585) 263-3148 or email at [ccprogram@nywb.uscourts.gov](mailto:ccprogram@nywb.uscourts.gov)**

*and*

### **The Bankruptcy Court Committee of the Monroe County Bar Association**

#### **The cost of credit**

1. You don't need to be like so many others. You don't need to be an over-spender or credit abuser even though the temptation is there. Not everyone takes drugs, drinks too much, gambles too much or smokes. **SAY NO** to living beyond your means. Be in control of your finances. Be different. Be smart. Accumulate wealth.
2. In 2001, the average household credit card balance was \$7,000. At 20% interest the annual finance charge alone is \$1,400. (If you had an extra \$116 of disposable income a month, why would you have to borrow \$7,000?) What if your household lived within its means and from age 25 to age 65 when you retired you invested that \$115 per month? Even at just compound interest with a reasonable rate of return you would have quite a nest egg.
3. The real cost of credit – in contrast to living within your means, say you owe a department store a \$1,000 on a credit card. The annual percentage rate is 21% and you make the minimum payment but make no additional payments. When will this balance be paid off even if you make no additional charges? Depending upon which of the three methods the seller decides to use to calculate finance charges, the earliest the balance will be paid off is 7 ½ years and the least amount you will have paid will be \$2,000. Will you still remember what you bought and will you still be using it 7 or 8 years later? Know what credit is really costing you ---18%-20%-24%. That's money you don't have to do or buy something else. Why are you paying \$120 for that \$80 pair of sneakers? Every dollar spent on credit is a mortgage on future spending.

#### **Using credit cards**

1. Always have a budget and live within it.
2. Don't have more than one credit card. That's all you need for convenience or an emergency. If you are creditworthy you can get a credit line on that one card that will be adequate. Store accounts often charge higher interest rates and stores now all accept major credit cards.
3. For your one credit card – shop around and get the best deal, then read the agreement carefully and understand:

- A. the interest rate on charges versus cash advances
  - B. the default interest rate
  - C. any fees – annual or for late payments
  - D. when payments are considered received
- 4. If you can eat, drink or smoke it, don't charge it.
- 5. Use a debit card, a check or cash whenever possible --- you will spend less.
- 6. If you are not paying off the balance on your credit card and store charges every month, analyze why --- are you buying things you don't need? Understand the difference between wants and needs. If you need a winter coat, must it be an Armani?
- 7. Add up the total outstanding balance on all of your credit cards and store charges at the end of every month to see how much you actually owe --- you might be surprised.
- 8. Always have a plan to repay your debt. Don't use credit to get through hard times without first cutting expenses and then realistically plan for how you will pay the credit back.
- 9. Stop when you cannot pay your bills every month without taking a loan from a credit card or line of credit. You are in serious trouble.
- 10. If you don't carefully budget your monthly credit use and keep to it, on the 15<sup>th</sup> of the month call the 800 number on each of your cards and store charges to see how much you have charged. You might be surprised.

## Students

1. When you go to college:
  - On and near campus fellow students will be soliciting you to sign up for credit cards and they will offer you gifts and deals.
  - They are doing themselves a favor, not you.
  - Remember – some college students have committed suicide when they were faced with the reality of their overspending and abuse of credit.
2. If you have abused credit, overspent and had financial problems, it may affect your ability to get a job, especially a position where you have to deal with money or financial matters, and it may affect your ability to be promoted.

## Consequences

1. Interpersonal relationship problems with family and friends.
2. Depression
3. Suicide
4. Reduced performance at school or work
5. Failure to get promoted or losing a job because of poor performance or an employer's knowledge of your financial problems.
6. Failure to get a job applied for
7. Having to drop out of school – more and more college students are
8. Being turned down for a student loan for graduate school
9. Having to go bankrupt

10. Not being able to rent that apartment or buy that car or house you wanted, because of a bad credit rating
11. Not having the money to help you children get educated or to retire with dignity
12. Having creditors calling, suing, and taking judgments
13. Having a bad reputation among friends, family, and fellow workers that you had bad judgment and lost control of your life

### **Where to learn about finances and the proper way to use credit cards**

- Dr. Robert Manning, a professor at the Rochester Institute of Technology, who wrote **CREDIT CARD NATION**, has a website (<http://www.creditcardnation.com>) where students, teachers, and parents can become educated in finances and the proper use of credit.
- **NEFE High School, Financial Planning Program (A Student Guide)**, is a curriculum sponsored by the National Endowment for Financial Education that includes topics such as goal setting and decision making, financial planning, a personal budget, smart shopping, saving and investing, using credit and credit cards wisely, and how debt affects you. To order this publication, contact: National Endowment for Financial Education, High School Department, 5299 DTC Boulevard, Suite 1300, Greenwood Village, Colorado 80111, or phone (303)224-3511. On the web go to <http://www.nefe.org/pages/highschool.html>